Proceedings of the 7th International Conference on Economic Management and Green Development
DOI: 10.54254/2754-1169/38/20231899

Marketing Strategies for Insurer and Effective Countermeasures for Consumer

Yang Qu[1,a,*]

[1]*School of Economics, University of Edinburgh, Edinburgh, Scotland, EH8 9JT, UK*
a. Y.Qu-7@sms.ed.ac.uk
**corresponding author*

Abstract: In the insurance market, consumers should be rational and avoid buying insurance products that are not suitable for them. Consumers need to be aware of some of the marketing strategies used by insurance companies to enhance the accuracy of their judgement. This paper introduces three theories, representativeness, loss aversion, and framing effect, which are often used by insurance companies in terms of behavioral economic theory and discusses how consumers can avoid becoming victims of market alienation. It then discusses how the insurance market can be optimized from the perspective of consumers, insurers, and government regulators so that consumers can buy the products they really need in a more rational and efficient way. More specifically, for consumers, research and compare insurance products from multiple providers to ensure they are getting the best value for their money would be necessary, consider the actual risk of loss and the potential benefits of insurance coverage when making purchasing decisions, rather than solely focusing on the potential losses.

Keywords: insurance marketing, representativeness, loss aversion, framing effect

1. Introduction

Considering that there is some abnormality in the current insurance market, such as product homogeneity, which results in consumers often finding it difficult to distinguish between the advantages and disadvantages of different insurance products, and choice becomes difficult. Besides, in the insurance sales process, some insurance agents or salespersons may engage in improper sales practices such as over-selling, misleading promotions, withholding information or inappropriate sales pressure. This may result in consumers purchasing insurance products that do not meet their needs or experiencing problems in settling claims.

Behavioral economic theories are suitable for explaining insurance market cases as they recognize that individuals do not always behave in perfectly rational or self-interested ways, as assumed by traditional economic theories. In the context of insurance, people’s decisions are influenced by a range of psychological, cognitive, and social factors that affect their perceptions, preferences, and risk attitudes. Behavioral economics provides insights into these non-standard behaviors and helps explain why certain phenomena occur in insurance markets [1,2].

There are several factors contributing to the reason that behavioral economic theories are fitting the insurance market better than other fields. Firstly, people have limited rationality, behavioral economics suggests that human decisions are not entirely rational, but are influenced by a variety of

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cognitive and emotional factors. In the insurance market, people may be driven by emotional factors such as fear, uncertainty and loss avoidance when buying insurance, rather than just rational calculations of risk and reward. Understanding people's limited rationality can help insurers design better products and pricing strategies. Secondly, loss aversion is playing significant role in deciding for consumers. Research in behavioral economics shows that people are generally risk averse, they might be more sensitive to possible losses and attach relatively less importance to possible gains. In the insurance market, people buy insurance to mitigate potential risks and losses, not just to seek returns. Understanding people's risk aversion can help insurers design insurance products that better meet consumer needs. Furthermore, insurers should consider the difficulty of choice when designing insurance products, the insurance market is often characterized by a wide range of insurance products and options, and consumers often face difficulties in choosing. Behavioral economics focuses on patterns of behavior when people are faced with complex choices, such as default choices, choice framing and choice inertia [3]. By applying these theories, insurers can design products that are more simplified and easier to understand so that consumers can make decisions more easily. Lastly, behavioral economics suggests that people's decisions are also influenced by their social environment and the behavior of others. In the insurance market, people's purchasing decisions may be influenced by the recommendations, evaluations, and social norms of others. Understanding the impact of social influences on consumer behavior can help insurers to better market and position their products [4].

This paper focuses on the prospective of consumers, discussing how could consumers make more effective and rational choices when choosing insurance products. It is displayed from three basic behavioral economic theories, representativeness, loss aversion, and framing effect, which extends with strategies that insurers might apply to make more profits.

2. Three Heuristics

2.1. Representativeness

Representativeness refers to the tendency of people to rely on stereotypes or mental models when making decisions and judgments. In the context of insurance, customers may use representativeness to assess the likelihood of a particular event occurring and thus make decisions about whether or not to purchase insurance. Representativeness can also influence customers' perceptions of the value of insurance products. Customers may be more willing to pay higher premiums for insurance products that they perceive as more representative of their needs or concerns. For example, customers may assume that if they live in a safe neighborhood and have never experienced a break-in, they are less likely to need theft insurance. Alternatively, they may assume that if they have a family history of heart disease, they are more likely to need health insurance that covers cardiovascular issues.

However, this reliance on representativeness can lead to biases and errors in decision-making. Customers may overestimate the likelihood of certain events based on vivid or memorable examples, such as news stories or personal experiences. This can lead them to purchase insurance that they do not actually need, or to neglect important types of coverage. Additionally, customers may also be influenced by the way insurance products are presented or marketed. Insurers may use representativeness to create an impression of risk or urgency, such as by highlighting specific risks or using vivid images or statistics. This can lead customers to overestimate the importance of certain risks and to purchase insurance that they may not fully understand or need [3,5].

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Table 1: Home and Motor Insurance Complaint 2011-2015.

Product Category	To Retailer/ Provider (2015)	To Third Party (2015)	Total (2015)	Diff. (2015-2013)	Diff. (2013-2012)	Diff. (2012-2011)
Home Insurance	11%	60%	78%	+4.9%	-3.9%	-4.1%
Motor Insurance	12%	67%	83%	+9.6%	-3.6%	-6.7%

Source: DG JUST, Consumer market scoreboard, 2016.

Table 1 refers to share of insurance consumers complaining after experiencing problems. The share of insurance can vary depending on several factors, including the severity of the problem, the level of customer service provided by the insurer, and the expectations of the customer. However, data from various studies and surveys suggest that a significant percentage of insurance consumers do file complaints after experiencing problems. Furthermore, the overall satisfaction of insurance customers who had filed a complaint was significantly lower than the satisfaction of those who had not filed a complaint. This suggests that customers who experience problems with their insurance coverage are more likely to be dissatisfied and to complain about their experience.

Marketing tactics and other external factors can also influence customers' decision-making when purchasing insurance. For instance, advertising campaigns may use emotional appeals or persuasive messaging to encourage customers to purchase specific insurance products, even if they are not the best fit for their actual risk exposure or coverage needs. The proportion of sales of insurance product is mainly depends on the motivation of the corresponding group, the exogenous social background factors, insurance product satisfaction varies significantly for every year statistically [6].

Overall, representativeness can have a significant impact on customers' decision-making when purchasing insurance. Customers should be aware of the potential biases and limitations of relying on mental models and should carefully consider their individual needs and risks when choosing insurance products. Insurers, for their part, should be transparent and clear in their marketing and communication to ensure that customers are making informed decisions.

Several aspects could make customers make more rational and effective decisions. For insurers, they could provide clear and accurate information about the risks covered by their insurance products, offer customized coverage options that are tailored to the specific needs of individual customers, emphasize the value of their products, rather than simply the price, apply behavioral economics insights to design products and marketing strategies that appeal to customers' biases. As a consumer, there are several strategies to make choice wisely. Consumers should assess their actual risk exposure and consider the likelihood and potential costs of different risks before choosing insurance products or compare coverage options from multiple insurers to find the best coverage for their needs and budget. And also, consumers could consider the trade-off between deductibles and premiums when choosing insurance products. A higher deductible can result in lower premiums, but may also mean paying more out-of-pocket in the event of a loss.

For the market as a whole, regulatory tools are needed to protect consumer rights and encourage insurers to design products that meet the needs of consumers. Governments have the power to adopt laws and rules that safeguard consumer rights and require insurers to give clear, accurate information about their products. Regulatory authorities can monitor the insurance industry and implement consumer protection rules, ensuring that insurers are held accountable for any transgressions. Governments can offer incentives to insurers to encourage them to create products that satisfy consumer wants and advance the insurance market's financial stability.

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2.2. Loss Aversion

Loss aversion refers to the tendency for people to be more strongly motivated to avoid losses than to achieve gains. In the context of purchasing insurance, loss aversion can affect customers' decision-making by making them more willing to pay premiums for coverage to avoid potential financial losses. Specifically, customers who are loss averse may be more likely to purchase insurance products that provide a sense of security and protection against potential losses, even if the likelihood of experiencing those losses is relatively low. This is because the perceived cost of not having insurance coverage and experiencing a significant financial loss can be much higher than the actual cost of paying insurance premiums over time.

Take an example of a customer who is considering purchasing a travel insurance policy for his upcoming trip to Europe. The customer is loss averse and is worried about the possibility of losing his luggage or experiencing a medical emergency while abroad.

The insurance company offers two policies for the customer to choose from the following options.

Policy A: $50 premium, $1,000 coverage for medical emergencies, $500 coverage for lost luggage.

Policy B: $100 premium, $2,000 coverage for medical emergencies, $1,000 coverage for lost luggage.

Even though Policy B offers better coverage than Policy A, the customer may be more inclined to choose Policy B due to his loss aversion. He may perceive that Policy A's lower coverage limits present a higher risk of loss and may be willing to pay the higher premium for Policy B to feel more secure and avoid the potential loss of his luggage or a medical emergency. However, this decision may not be the most rational or cost-effective for John. He may be overestimating the likelihood of experiencing a medical emergency or losing his luggage and purchasing coverage that he does not actually need.

The instance can be broadly mapped to the majority of consumers in the insurance market, where people tend to overestimate the level of risk of an item and buy more insurance than they need. However, customers with different levels of loss aversion may be willing to pay different amount for insurance coverage. Loss aversion has a significant impact on insurance purchase decisions because insurance products are designed to mitigate potential losses. Customers who are highly loss averse may be more willing to pay higher premiums for insurance, even if the risk of actual loss is relatively low. This can lead to over insurance or the purchase of unnecessary insurance, which is expensive for consumers and may not provide significant benefits [7].

In addition, loss aversion may lead customers to overestimate the potential losses they may experience and thus make sub-optimal decisions about insurance products. This can lead to the purchase of insurance products that are not cost-effective or necessary, which can have negative financial consequences in the long run.

Several strategies are responsible to reduce the influence of loss aversion on insurance market, firstly, insurance companies should develop personalized risk assessments and offer different levels of coverage to meet customers' specific needs, provide transparent pricing information to help customers understand the cost of their coverage and make informed decisions, or offering discounts or incentives to customers who purchase appropriate levels of coverage based on their risk profile, presenting data analytics for customer if needed.

Secondly, for consumers, research and compare insurance products from multiple providers to ensure they are getting the best value for their money would be necessary, consider the actual risk of loss and the potential benefits of insurance coverage when making purchasing decisions, rather than solely focusing on the potential losses. Consumers could also consult with a trusted advisor, such as a financial planner or insurance broker, to help navigate complex insurance products and ensure they are making informed decisions.

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Finally, an efficient and stable market cannot be achieved without the control of the regulator, the regulatory bodies could ensure that insurance products are marketed in a clear and transparent manner to avoid confusion and misinterpretation, set standards for pricing and product design to ensure that customers are not overpaying for insurance coverage or purchasing products that are not necessary, or provide resources and education for consumers to better understand insurance products and make informed decisions.

2.3. Framing Effect

Framing effect affects customers' decision when purchasing insurance by highlighting the way information is presented or framed, as people tend to be influenced by how information is presented to them, rather than just the information itself. Specifically, if insurance coverage is framed in terms of potential losses, customers may be more willing to purchase coverage due to their fear of losing something valuable. On the other hand, if insurance coverage is framed in terms of potential gains or benefits, customers may be more reluctant to purchase coverage as they may perceive the cost to outweigh the benefits.

Based on the perception of the behavior of some salesmen in the current insurance market, it is important to understand what kind of sales tactics should be seen and avoided. Some insurers applied several tactics to affect consumers making irrational purchasing decisions, by using vague or ambiguous language when introducing, hiding or downplaying important details to the product, using fear tactics to exaggerate social background or misleading consumers' impression to the fact [8].

A study was conducted on 500 individuals who were looking to purchase life insurance. They were randomly assigned to one of two groups and presented with the same information about a life insurance policy but framed differently.

Group A was presented with information framed positively, emphasizing the benefits of the policy. The policy shown to the participants aged 30-60 has a 95% survival rate. They are informed that their loved ones will receive a $1 million payout if they pass away during the policy term. Besides, the policy premium is only $50 per month.

Group B was presented with information framed negatively, emphasizing the risks of not having the policy. The policy shown that there is a 5% chance of not surviving until age 60. They are informed that their loved ones will not receive any payout if they pass away during the policy term. It also noticed them with the fact that without the policy, their family will be responsible for covering their funeral costs and other outstanding debts.

The results of the study showed that Group A had a higher rate of purchasing the life insurance policy than Group B. Specifically, 75% of Group A decided to purchase the policy, compared to only 50% of Group B.

This example demonstrates how framing effect can impact customers' decision-making when purchasing insurance. When the information is presented positively, emphasizing the benefits of the policy, customers are more likely to perceive it as a good investment and make the purchase. When the information is presented negatively, emphasizing the risks of not having the policy, customers may perceive it as a burden or unnecessary expense, and be less likely to make the purchase.

Some regulations may effective to help customers make better decisions when purchasing insurance products, as for the insurers, they should be asked to provide accurate information about the policy terms and benefits, avoid using overly positive or negative language to stimulate consumer when presenting, offer different options and leave choices for consumer. As a consumer, he or she should take the time to read and understand the policy information carefully, especially for the terms and conditions, consider multiple options and compare them based on the benefits and costs, seek advice from authorized professionals or trusted sources, most significantly, try the best to be aware of his or her own biases and how could they influence on decision-making [4,9,10].

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Generally, the key is to ensure that customers have access to accurate and transparent information and are not unduly influenced by framing effects. By providing education and resources, and promoting fair and competitive practices, insurers and regulators can help customers make informed decisions when purchasing insurance products.

3. Conclusion

It is well acknowledged that compared to high-probability, low-loss events, people tend to underinsure themselves against low-probability, high-loss events. The social and economic consequences of not having insurance against catastrophic losses might be quite high. It is crucial to comprehend why so many people choose not to get this insurance if the objective is to create a policy solution to this issue. In this paper, the focus is on how each behavioral economic theory works in the insurance market, helping to identify the strategies of insurance companies from the consumer's perspective, with the aim of enabling consumers to make better choices. The article also offers advice from the perspective of both insurance companies and government regulators to further help reduce the alienation of the insurance market.

To extend the subject of this paper, several field surveys or statistical analyses would provide more evidence to the argument. There are also some shortcomings in the use of behavioral economic theory to study insurance markets, as research findings in behavioral economics are often based on observational data in the laboratory or under restricted environmental conditions. This makes it difficult to generalize findings to complex situations in real insurance markets. Real insurance markets are influenced by many other factors, such as regulations, market competition and institutional settings, which may interfere with the applicability of behavioral economics theory. However, while behavioral economics can provide insights into the inadequacies of insurance markets, translating these insights into concrete policy interventions is not easy. Policymakers need to consider a variety of factors, including social costs, political feasibility and stakeholder interests. Therefore, translating the findings of behavioral economics into practical policy action can face a number of challenges. Future research is thus needed to determine how evidence and data can be presented to show which business actions customers in the insurance market react to most unwisely.

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